

Estimate change



TP change



Rating change



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Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USD\$)	46.1 / 0.6
52-Week Range (INR)	1763 / 1051
1, 6, 12 Rel. Per (%)	-1/-32/-32
12M Avg Val (INR M)	360

Financials & valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	93.6	109.9	121.1
EBITDA	7.1	8.3	12.4
EBITDA Margin (%)	7.6	7.6	10.3
Adj. PAT	0.8	1.4	3.8
EPS (Rs)	19.6	34.4	94.8
EPS Growth (%)	-82.8	75.2	175.9
BV/Share (Rs)	809	831	914

Ratios

RoE (%)	2.4	4.2	10.9
RoCE (%)	3.6	4.9	9.0
Payout (%)	17.0	34.9	12.7

Valuations

P/E (x)	63.8	36.4	13.2
P/BV (x)	1.5	1.5	1.4
Div. Yield (%)	0.2	1.0	1.0
FCF Yield (%)	-6.6	5.3	10.2

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	47.2	47.1	46.8
DII	11.2	11.7	13.7
FII	22.5	22.7	24.0
Others	19.2	18.6	15.5

FII Includes depository receipts

CMP: INR1,253
TP: INR1,460 (+17%)
Buy

Strong volume recovery drives beat

RM cost benefits to accrue from 3QFY23

- CEAT's 1QFY23 performance was driven by a recovery in both the Replacement and OEM segment. While RM cost pressures will continue in 2QFY23, margin will be impacted in 2QFY23. A recovery in demand and easing of commodity prices will drive a strong performance from 2HFY23.
- We maintain our FY23E EPS estimate, but upgrade our FY24E EPS estimate by 14% to account for a decline in RM costs. We maintain our **Buy rating** with a TP of INR1,460 per share (based on ~13x Sep'24 EPS).

Demand recovers, price hikes diluted by cost inflation

- Revenue grew by ~48% YoY to INR28.2b, with EBITDA flat at INR1.65b, and PAT declining by 59.5% to INR97m in 1QFY23.
- Volumes grew 30% YoY and 7.5% QoQ. Domestic Replacement/OEM volumes grew 8%/16% QoQ, offset by flat QoQ growth in exports.
- Gross margin contracted by 7.2pp YoY and 1.8pp QoQ to 31.7% (est. 32.5%) due to higher RM cost (~4% QoQ). However, operating leverage restricted the decline in EBITDA margin to 5.9% (down 290bp YoY, est. 5.7%).
- Adjusted PAT fell 59.5% YoY and 66.5% QoQ to INR97m (v/s our loss estimate of INR77m loss).

Highlights from the management commentary

- **Replacement segment grew**, led by a 20%/15% QoQ growth in PCR/2W tyres, but T&B was flat (growth in TBR was offset by a decline in TBB).
- The growth momentum is expected to sustain, with OEM growing faster than the Replacement market. The momentum in exports is expected to continue as it now has a complete range of winter tyres in the EU and has also launched TBR in that geography.
- **RM basked was higher by 4% QoQ**. With the full impact of higher crude oil prices reflecting in 2QFY23 (a further 2-3% QoQ increase), the benefits from the recent correction in crude oil prices will accrue only in 3QFY23.
- **Price hikes**: It hiked prices in the Replacement market by ~2% on an average in 1QFY23, largely in the CV and PCR segment. It has taken price hikes in Jul'22 (~1%/2%/2-3% in 2Ws/PCR/TBR) and is planning to raise prices by up to 4% in Aug'22.

Maintain Buy with a TP of INR1,460 per share (17% upside)

- The cyclical recovery in both OEMs and Replacement will enable faster absorption of new capacities and drive benefits from operating leverage. This, coupled with a gradual pass through of cost inflation, will aid a partial recovery in margin in FY23E, with a full recovery expected in FY24E.
- Valuations at 36.4x/13.2x FY23E/FY24E consolidated EPS do not fully capture the ramp-up in new capacities and stabilization in RM cost. We maintain our **Buy** rating with a TP of INR1,460 per share (based on ~13x Sep'24 EPS).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Consolidated quarterly earnings

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Net Sales	19,064	24,518	24,133	25,920	28,184	27,460	27,029	27,251	93,634	1,09,923	25,736
YoY Change (%)	70.2	23.9	8.6	13.2	47.8	12.0	12.0	5.1	23.0	17.4	35.0
RM cost (%)	61.1	63.1	66.0	66.5	68.3	67.0	65.5	63.5	64.4	66.1	67.5
Employee cost (%)	9.3	7.0	7.1	6.6	6.1	6.5	6.7	6.8	7.4	6.5	6.8
Other expenses (%)	20.9	20.9	21.3	19.7	19.7	19.8	19.8	20.1	20.6	19.9	20.0
EBITDA	1,662	2,203	1,341	1,875	1,653	1,850	2,173	2,624	7,098	8,299	1,467
Margin (%)	8.7	9.0	5.6	7.2	5.9	6.7	8.0	9.6	7.6	7.6	5.7
Depreciation	965	1,206	1,086	1,096	1,114	1,125	1,130	1,159	4,352	4,528	1,100
Interest	460	496	548	566	521	575	600	611	2,070	2,308	590
Other Income	39	28	32	33	28	35	35	42	114	140	35
PBT before EO expense	276	529	-260	246	45	185	478	895	790	1,603	-188
Exceptional item	0	5	65	59	7	0	0	-7	129	0	0
PBT	276	524	-326	187	38	185	478	903	661	1,603	-188
Tax Rate (%)	41.8	29.2	10.7	5.2	31.0	32.0	32.0	32.0	36.7	32.0	35.0
Minority Int. and Profit of Asso. Cos.	-79	-49	-91	-75	-67	-70	-75	-89	-294	-300	-45
Reported PAT	240	420	-200	253	92	196	400	702	712	1,390	-77
Adj. PAT	240	423	-159	290	97	196	400	697	794	1,390	-77
Change (YoY %)	-255	-77	-111	-81	-59	-54	-352	141	-83	75	-132.2
Margin (%)	1.3	1.7	-0.7	1.1	0.3	0.7	1.5	2.6	0.8	1.3	-0.3
Key performance indicators											
RM Cost (as a percentage of sales)	61.1	63.1	66.0	66.5	68.3	67.0	65.5	63.5	64.4	66.1	67.5
Staff Cost (as a percentage of sales)	9.3	7.0	7.1	6.6	6.1	6.5	6.7	6.8	7.4	6.5	6.8
Other Cost (as a percentage of sales)	21	21	21	20	20	20	20	20	21	20	20.0
Gross margin (%)	38.9	36.9	34.0	33.5	31.7	33.0	34.5	36.5	0.0	0.0	32.5
EBITDA Margin (%)	8.7	9.0	5.6	7.2	5.9	6.7	8.0	9.6	7.6	7.6	5.7
EBIT Margin (%)	3.7	4.1	1.1	3.0	1.9	2.6	3.9	5.4	7.6	7.6	1.4

E: MOFSL estimates

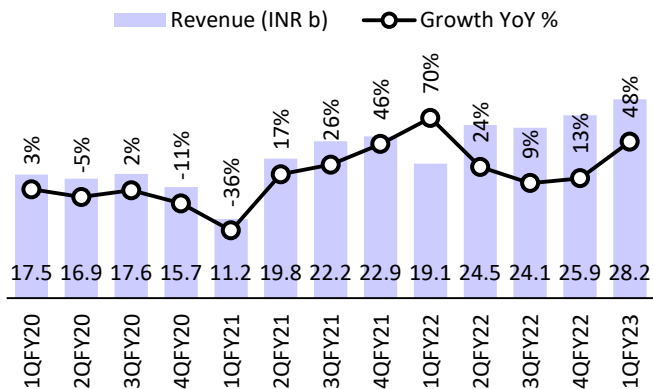


Highlights from the management commentary

- **Volume growth:** Volumes grew 7.5% QoQ (up over 30% YoY on low base), led by a 16%/8% QoQ growth in the OEM/Replacement segment and flat exports.
- Growth in the Replacement segment was led by a 20%/15% QoQ growth in PCR/2W tyres, but T&B was flat (growth in TBR was offset by a decline in TBB).
- **Growth momentum** is expected to sustain, with OEM growing faster than the Replacement market. The momentum in exports is expected to continue as it now has a complete range of winter tyres in the EU and has also launched TBR in that geography.
- **RM basked was higher by 4% QoQ.** With the full impact of higher crude prices reflecting in 2QFY23 (a further 2-3% QoQ increase), the benefits from the recent correction in crude oil prices will accrue only in 3QFY23.
- It has **hiked prices in the Replacement market** by ~2% on an average in 1QFY23, largely in the CV and PCR segment. It has raised prices in Jul'22 (~1% in 2Ws, 2% in PCR, and 2-3% in TBR) and plans to increase prices by up to 4% in Aug'22.
- Its Sri Lanka operations continued to operate profitability in 1QFY23, despite challenging conditions.
- **Capex:** It maintained its growth/maintenance capex guidance at INR7.5b/INR2b. Capex in 1QFY23 stood ~INR2.5b.
- Its gross debt stood at INR21.4b (v/s INR21b in 4QFY22). Except for ~INR3b of NCDs, a large part of the debt is at a variable interest rate. Hence, it expects interest cost to rise from 2QFY23 onwards.

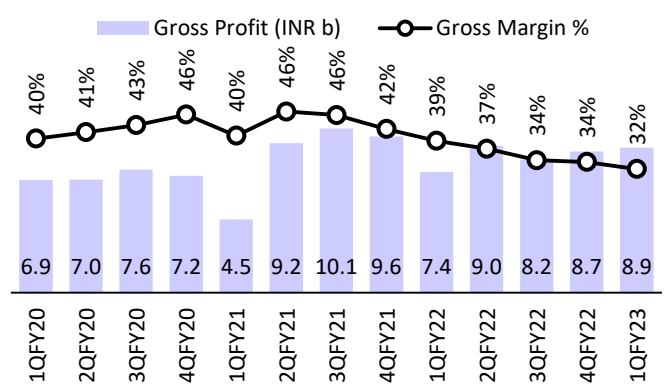
Key exhibits

Exhibit 1: Trend in revenue



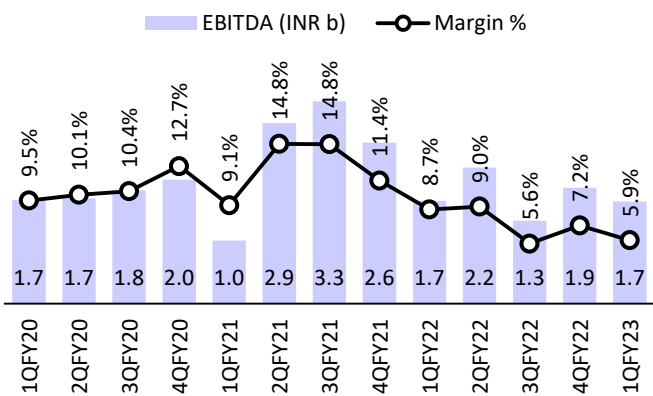
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



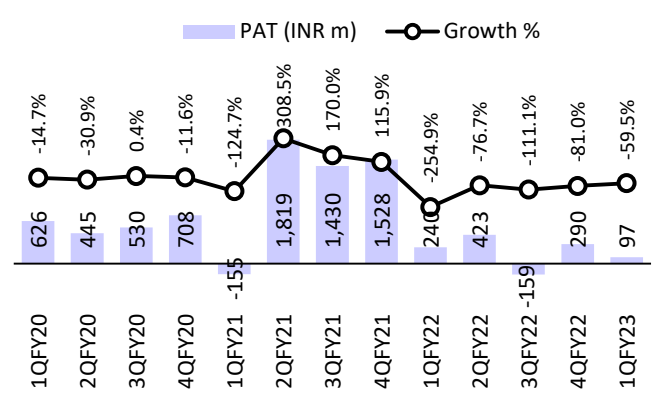
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trends



Source: MOFSL, Company

Maintain Buy with a TP of INR1,460 per share

Focus on improving brand equity to drive market share gains: CEAT has placed a strong emphasis on effective marketing and branding of its products. To position its products competitively, it has developed creative ad campaigns, based on extensive research and consumer insights, and invested in innovative marketing programs. Since the 2W and Passenger Car segments are consumer-facing, factors such as brand loyalty, visibility, and recall go a long way in creating Replacement market demand and improving market share, which will, in turn, benefit its margin profile.

Ramp-up in its strategic focus areas to continue: The management has identified the 2W, Passenger Car, and OTR (truck/off-road) tyre segments as strategic focus areas, given their abilities to boost margin and to lower CEAT's dependence on the Truck segment. Revenue contribution from these focus areas has grown significantly over the years (to 60% in FY22 from 20% in FY10). This is also reflected in market share gains in the PCR segment, which stood greater than 15% (v/s 11% a few years back). Expansion in TBR, despite it not being a strategic focus area, is done to maintain overall market share in T&B tyres. Its market share stood at 8-9% (v/s 5% a few years ago) in the TBR category. At its current capex plan, contribution from focus areas can scale up to 60-65% over the next four-to-five years, which will

reflect positively in its operating performance. Benefit of this capex is not fully reflected in our FY23/FY24 estimate. We expect ~12% revenue CAGR over FY22-25E.

Valuation and view: We maintain our FY23 EPS estimate, but upgrade our FY24 EPS estimate by 14% to account for a decline in RM costs. A cyclical recovery in both OEMs and Replacement will enable faster absorption of new capacities and drive benefits from operating leverage. Valuations at 36.4x/13.2x FY23E/FY24E consolidated EPS do not capture the ramp-up in new capacities and a recovery in margin. We maintain our Buy rating with a TP of INR1,460 per share (based on ~13x Sep'24E EPS).

Exhibit 5: Change in our estimates

(INR m)	FY23E			FY24E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net Sales	1,09,923	1,06,869	2.9	1,21,148	1,17,783	2.9
EBITDA	8,299	8,336	-0.4	12,418	11,602	7.0
EBITDA (%)	7.6	7.8	-20bp	10.3	9.9	40bp
Adj. PAT	1,390	1,354	2.6	3,836	3,358	14.2
EPS (INR)	34.4	33.5	2.6	94.8	83.0	14.2

Exhibit 6: One-year forward P/E ratio

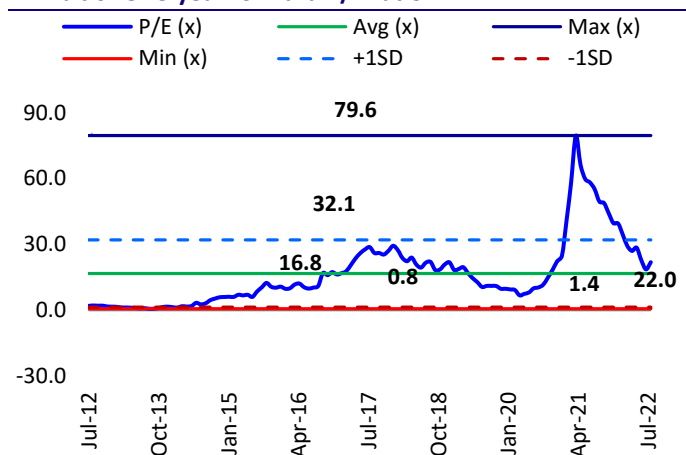
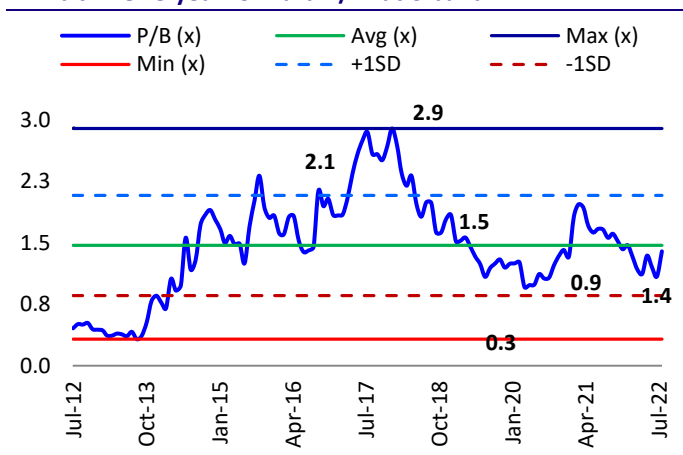
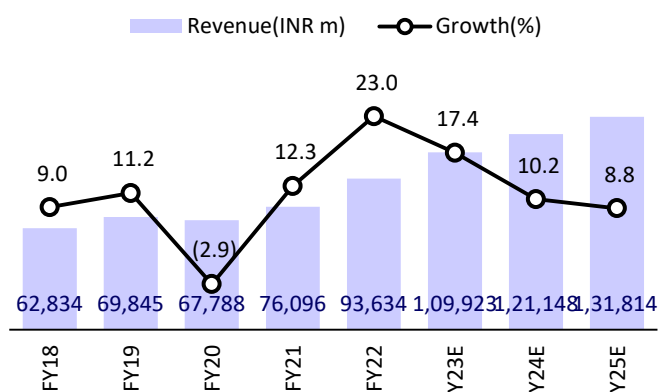


Exhibit 7: One-year forward P/B ratio band



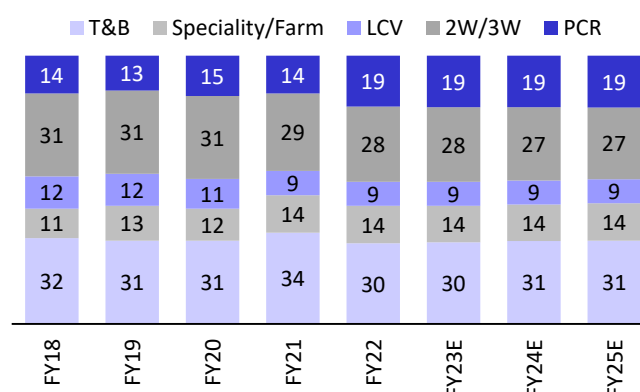
Story in charts

Exhibit 8: Revenue and revenue growth trends



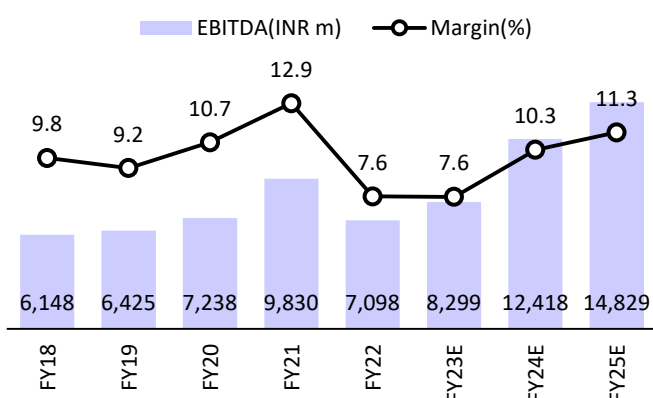
Source: MOFSL, Company

Exhibit 9: Key revenue segments



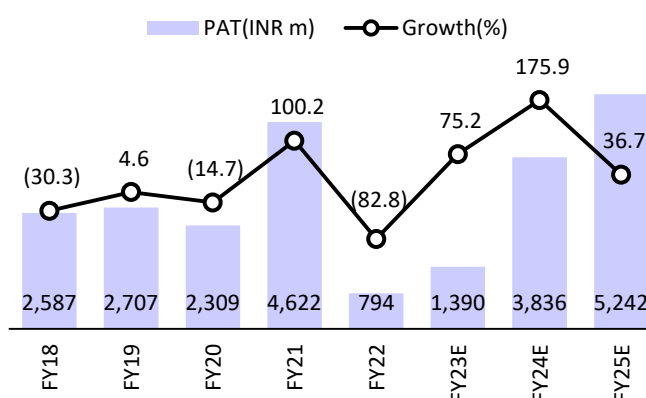
Source: MOFSL, Company

Exhibit 10: EBITDA and EBITDA margin trends



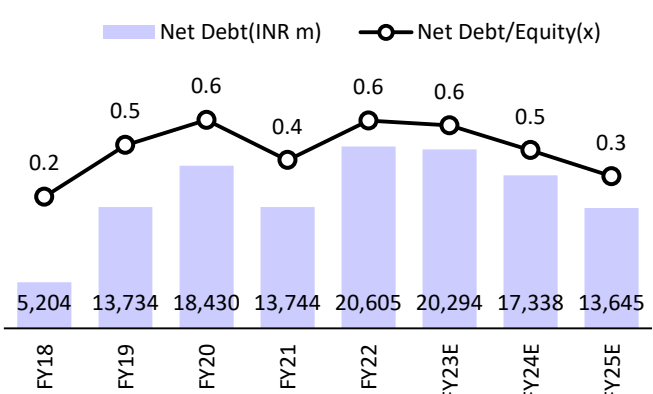
Source: MOFSL, Company

Exhibit 11: PAT and PAT growth trends



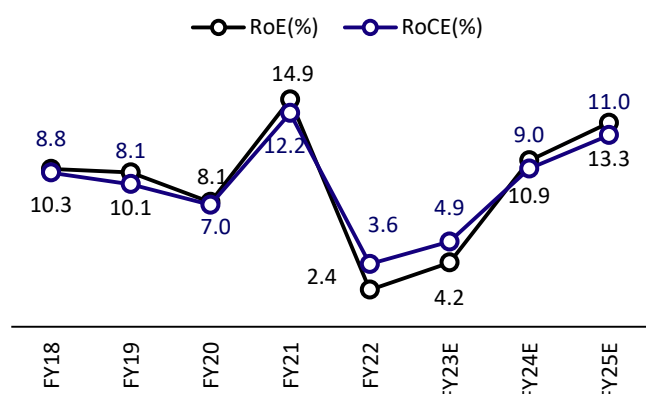
Source: MOFSL, Company

Exhibit 12: Trend in debt levels



Source: MOFSL, Company

Exhibit 13: Return profile trend



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue from Operations	69,845	67,788	76,096	93,634	1,09,923	1,21,148	1,31,814
Change (%)	11.2	-2.9	12.3	23.0	17.4	10.2	8.8
EBITDA	6,425	7,238	9,830	7,098	8,299	12,418	14,829
EBITDA Margin (%)	9.2	10.7	12.9	7.6	7.6	10.3	11.3
Depreciation	1,927	2,765	3,396	4,352	4,528	5,177	5,875
EBIT	4,498	4,473	6,433	2,746	3,771	7,240	8,954
EBIT Margin (%)	6.4	6.6	8.5	2.9	3.4	6.0	6.8
Int. and Finance Charges	880	1,509	1,755	2,070	2,308	2,211	1,887
Other Income	390	205	138	114	140	170	200
PBT bef. EO Exp.	4,008	3,169	4,816	790	1,603	5,200	7,268
EO Items	-297	5	-341	-129	0	0	0
PBT after EO Exp.	3,711	3,174	4,476	661	1,603	5,200	7,268
Total Tax	1,402	1,046	516	243	513	1,664	2,326
Tax Rate (%)	37.8	33.0	11.5	36.7	32.0	32.0	32.0
Minority Int./Share in JV PAT	-213	-184	-361	-294	-300	-300	-300
Reported PAT	2,522	2,312	4,320	712	1,390	3,836	5,242
Adjusted PAT	2,707	2,309	4,622	794	1,390	3,836	5,242
Change (%)	4.6	-14.7	100.2	-82.8	75.2	175.9	36.7
Margin (%)	3.9	3.4	6.1	0.8	1.3	3.2	4.0

Consolidated Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	405	405	405	405	405	405	405
Total Reserves	27,257	28,675	32,758	32,324	33,228	36,579	41,335
Net Worth	27,661	29,079	33,163	32,728	33,633	36,983	41,740
Minority Interest	238	237	232	235	235	235	235
Total Loans	14,469	18,772	14,176	20,968	21,968	18,968	15,968
Deferred Tax Liabilities	2,198	2,744	2,800	3,177	3,177	3,177	3,177
Capital Employed	44,566	50,832	50,371	57,108	59,013	59,363	61,120
Gross Block	37,663	49,795	58,732	67,748	76,006	91,006	99,006
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	18,984	24,161	30,036
Net Fixed Assets	31,795	41,598	47,634	53,292	57,022	66,845	68,970
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	8,329	10,685	7,929	8,759	10,000	3,000	3,000
Total Investments	1,814	1,837	2,101	1,792	1,792	1,792	1,792
Curr. Assets, Loans, and Adv.	22,111	19,410	23,087	27,176	34,530	35,688	39,181
Inventory	10,056	9,257	11,299	13,096	15,313	16,384	17,628
Account Receivables	7,064	6,744	9,216	11,543	12,046	11,617	12,640
Cash and Bank Balance	735	342	431	363	1,674	1,630	2,323
Loans and Advances	4,256	3,067	2,141	2,174	5,496	6,057	6,591
Curr. Liability and Prov.	19,484	22,697	30,380	33,910	44,330	47,961	51,823
Account Payables	10,529	11,948	18,395	21,576	27,842	29,789	32,051
Other Current Liabilities	7,566	9,114	10,444	10,654	14,290	15,749	17,136
Provisions	1,389	1,635	1,541	1,680	2,198	2,423	2,636
Net Current Assets	2,627	-3,288	-7,293	-6,734	-9,801	-12,273	-12,642
Appl. of Funds	44,566	50,832	50,371	57,108	59,013	59,363	61,120

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)							
EPS	66.9	57.1	114.3	19.6	34.4	94.8	129.6
Cash EPS	114.6	125.4	198.2	127.2	146.3	222.8	274.8
BV/Share	683.8	718.9	819.8	809.1	831.5	914.3	1,031.9
DPS	12.0	12.0	18.0	3.0	12.0	12.0	12.0
Payout (%)	23.2	25.3	16.9	17.0	34.9	12.7	9.3
Valuation (x)							
P/E ratio	18.7	21.9	11.0	63.8	36.4	13.2	9.7
Cash P/E ratio	10.9	10.0	6.3	9.8	8.6	5.6	4.6
P/BV ratio	1.8	1.7	1.5	1.5	1.5	1.4	1.2
EV/Sales ratio	0.9	1.0	0.8	0.8	0.6	0.6	0.5
EV/EBITDA ratio	10.0	9.5	6.6	10.0	8.6	5.5	4.3
Dividend Yield (%)	1.0	1.0	1.4	0.2	1.0	1.0	1.0
Return Ratios (%)							
RoE	10.1	8.1	14.9	2.4	4.2	10.9	13.3
RoCE	8.1	7.0	12.2	3.6	4.9	9.0	11.0
RoIC	9.0	8.4	14.6	4.0	5.6	10.0	11.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	1.4	1.3	1.4	1.4	1.3	1.3
Asset Turnover (x)	1.6	1.3	1.5	1.6	1.9	2.0	2.2
Inventory (Days)	53	50	54	51	51	49	49
Debtor (Days)	37	36	44	45	40	35	35
Creditor (Days)	55	64	88	84	92	90	89
Leverage Ratio (x)							
Current Ratio	1.1	0.9	0.8	0.8	0.8	0.7	0.8
Interest Coverage Ratio	5.1	3.0	3.7	1.3	1.6	3.3	4.7
Net Debt/Equity ratio	0.5	0.6	0.4	0.6	0.6	0.5	0.3

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	3,560	2,871	4,476	661	1,603	5,200	7,268
Depreciation	1,927	2,765	3,396	4,352	4,528	5,177	5,875
Interest and Finance Charges	880	1,509	1,755	2,070	2,168	2,041	1,687
Direct Taxes Paid	-808	-181	-512	-200	-513	-1,664	-2,326
(Inc.)/Dec. in WC	235	2,582	4,516	-736	4,378	2,428	1,062
CF from Operations	5,794	9,546	13,631	6,147	12,164	13,182	13,565
Others	-267	17	-54	42	0	0	0
CF from Operations incl. EO	5,527	9,563	13,577	6,189	12,164	13,182	13,565
(Inc.)/Dec. in FA	-11,073	-11,183	-6,395	-9,558	-9,500	-8,000	-8,000
Free Cash Flow	-5,547	-1,620	7,182	-3,369	2,664	5,182	5,565
(Pur.)/Sale of Investments	320	9	-27	-89	0	0	0
Others	236	419	241	203	140	170	200
CF from Investments	-10,517	-10,755	-6,181	-9,444	-9,360	-7,830	-7,800
Issue of Shares	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	6,260	3,854	-5,677	5,821	1,000	-3,000	-3,000
Interest Paid	-889	-1,925	-1,628	-1,944	-2,308	-2,211	-1,887
Dividend Paid	-526	-1,139	-4	-746	-485	-485	-485
Others	0	0	0	0	300	300	300
CF from Fin. Activity	4,844	790	-7,309	3,132	-1,493	-5,396	-5,072
Inc./Dec. in Cash	-146	-402	87	-123	1,311	-44	693
Opening Balance	822	675	274	361	238	1,549	1,504
Closing Balance	675	274	361	238	1,549	1,504	2,198

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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